

Alaska Mining License Tax Return (Short Form) Instructions

GENERAL INFORMATION

Who Can File a Mining License Tax Short Return?

This form can only be used by a cash basis taxpayer with one mining operation and no other business activities. There can be no indirect expenses claimed on the short form.

Indirect expenses are expenses incurred to support multiple business and/or mining activities and must be allocated to those activities. Taxpayers with indirect expenses must use the Mining License Tax Return Long Form (0405-662).

Form 0405-662SF

Use this form to calculate the Alaska mining license tax on a mining operation that conducted mining during the tax year in Alaska, including operating and royalty interests. A mining operation is an operation by which valuable metals, ores, minerals, asbestos, gypsum, coal, marketable earth, or stone are extracted, mined, or taken from the earth. A mining operation consists of a single mining property or several mining properties that are connected geographically.

Who Must File a Mining License Tax Return?

A person engaged in one or more of the following activities in the state is in the business of mining and shall obtain a mining license and file a Mining License Tax Return:

1. A person owning and/or operating a mining property.
2. A person owning a mining property and receiving lease payments or royalty payments based on production from the property.
3. A person leasing a mining property.
4. A person possessing a mineral interest, whether an economic or production interest, in a producing property. An economic or production interest includes, but is not limited to: royalty, working or operating interests, net profits, overriding royalties, carried interests and production payments.

Return Period

A taxpayer shall make the return either on a calendar year or fiscal year basis, in conformance with the basis used in making the return for federal income tax purposes. A taxpayer with a calendar year-end shall file a return on or before April 30th of the following calendar year. A taxpayer with a fiscal year-end shall file a return on or before the last day of the fourth month following the end of the fiscal year.

HOW TO FILE

File paper return - Mail completed return to:

Alaska Department of Revenue
Tax Division
PO Box 110420
Juneau AK 99811-0420

Payment

Pay your taxes using the Online Tax Information System (OTIS) at www.tax.alaska.gov. Note that you must be an existing taxpayer with the Tax Division to pay electronically. If you are a first-time taxpayer, contact the Tax Division at (907) 465-2320 or visit www.tax.alaska.gov for information.

ACH Debit (EFT) - OTIS accommodates Automated Clearing House (ACH) debit payments. **If your bank account has a**

debit block, your online payment request will be rejected by your bank. Rejected payments may result in late payment penalties and/or interest.

If you think your bank account has a debit block, contact your bank before making an online payment to register the State of Alaska as an authorized ACH debit originator. The company ID for the Alaska Department of Revenue is 0000902050.

ACH Credit (Credit Cards) - OTIS does not accept ACH credit or credit card transactions.

Wire Transfers - If you are paying by wire transfer, log on to the OTIS website at www.tax.alaska.gov for instructions.

Checks - Note that if your total payment exceeds \$150,000 you are required to pay electronically or by wire transfer. If you are paying by check, make your check payable to the State of Alaska and mail it with your return to:

Alaska Department of Revenue
Tax Division
PO Box 110420
Juneau AK 99811-0420

Penalties

Late filing of return. Returns not filed by the due date are subject to a failure to file penalty of 5% of the unpaid tax for each 30 day period or portion of a period the return is late, up to a maximum of 25%.

Late payment of tax. If the full amount of tax is not paid when due, the return is subject to a failure to pay penalty of 5% of the unpaid tax for each 30 day period or portion of a period the payment is late, up to a maximum of 25%. If during any period or portion of a period, both the failure to file and failure to pay penalties are applicable, only the failure to file penalty is imposed.

Interest

Under Alaska Statute 43.05.225, interest will be assessed on any unpaid or delinquent tax. Interest is compounded quarterly at the applicable rate each quarter. Refer to www.tax.alaska.gov or contact the Tax Division for applicable rates.

LINE BY LINE INSTRUCTIONS

INCOME

Line 1. Enter the gross income from the mining operation. Gross income is the sale price, or value actually received, including cash, credits, in-kind exchange and other valuable consideration received for mined materials.

Line 2. Enter the total amount of royalties received. You must complete Schedule C and the form must include the lessee's name, address and social security number or EIN and the amount of royalty received.

Line 3. Add lines 1 and 2.

EXPENSES

Line 4. Enter the total amount of royalties paid. You must complete Schedule B and the form must include the lessor's name, address and social security number or EIN and the amount of royalty paid.

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Line 5. Enter any amount of fuel, oil and lubricant expenses directly related to the mining operation.

Line 6. Enter the amount of maintenance and repair expenses directly related to the mining operation.

Line 7. Enter the amount of salary and wage expenses directly related to the mining operation.

Line 8. Enter the amount of transportation costs directly related to the mining operation. Examples include but are not limited to; transportation of the mining equipment to the claim and the expenses involved in getting employees to and from the mining operation.

Line 9. Enter the amount of depreciation for the property plant and equipment directly related to the mining operation.

Line 10. Enter the amount of other expenses directly related to the mining operation. Attach a separate schedule itemizing the type and amount of other mining expenses that are not includable on lines 4- 9. Sum these expenses and put the total on line 10.

Line 11. Add lines 4 through 10.

Line 12. Line 3 minus line 11.

Line 13. You must complete Schedule A to take a depletion expense.

Line 14. Subtract line 13 from line 12.

Line 15. A mining license tax exemption is allowed for three and one-half years after initial commercial production begins on the property if a Certificate of Exemption is issued for the mining property. There is no exemption for sand and gravel mining. Enter approved exemption amount for the new mining operation. Exemption amount is generally equal to the net income for the first full 3 years and 6 months of net income in the fourth.

Line 16. Subtract line 15 from line 14.

Line 17. Enter the amount of tax due using the calculation instructions below.

Computation of tax. If line 15 is:

- \$ 40,000 or less; the tax is zero.
- Over \$ 40,000 and less than or equal to \$ 50,000; the tax is \$ 1,200 plus 3% of the excess over \$ 40,000.
- Over \$ 50,000 and less than or equal to \$ 100,000; the tax is \$ 1,500 plus 5% of excess over \$ 50,000.
- Over \$ 100,000; the tax is \$ 4,000 plus 7% of excess over \$ 100,000.

Line 18. You must complete and attach Form 0405-665 to take the exploration incentive credit.

Line 19. You must complete and attach Schedule EC to take the mining business education credit. Schedule EC can be found on the long form (0405-662).

Line 20. If you requested an extension, enter the amount paid when you made the extension request.

Line 21. If this is an amended return, enter the amount that was paid with the original return.

Line 22. Subtract lines 18, 19, 20 and 21 from line 17.

SCHEDULE A - DEPLETION

A separate Schedule A must be completed to calculate the allowable depletion deduction for your mining operation.

COST DEPLETION CALCULATION

Sand and gravel operations must use cost depletion. Placer must use the greater of cost or percentage depletion.

COST DEPLETION

Line 1. Enter the purchase cost of the property plus all development costs incurred while the property was in the development stage, less the residual value and the amount of cost or percentage depletion previously taken as a deduction for this property.

Line 2. Enter the amount of total recoverable units estimated to be produced from the property over the life of the mine less the amount of produced units upon which depletion was previously taken for this property.

Line 3. Enter the sum of line 1 divided by line 2. This gives you your unit cost.

Line 4. Enter the total number of units produced during the reporting period regardless of whether the units were sold during the period.

Line 5. Enter the sum of line 3 multiplied by line 4. Sand and gravel operations enter the amount also on page 1, line 13 of the Mining License Tax Return - Short Form. All other mines - see instructions for line 16.

The following example covers depletion using constant estimates.

The general method used for the calculation of depletion is the cost method.

- The first step of this method is to estimate the number of recoverable units which comprise the deposit.
 - The units can be tons of material
 - The taxpayer must be consistent from year to year in the type of unit being calculated to insure uniformity.
- The second step takes the cost or adjusted basis of the property which pertains to the deposit and divides this basis by the total number of units to obtain the depletion cost per unit.
- Once the total number of units extracted is determined for the tax year, it is multiplied by the cost per unit to obtain the amount of depletion available.

The taxpayer purchases a claim for \$ 50,000 (line 1); with known mineral reserves in mineable quantities. The taxpayer estimates that there will be no residual value in the claim after the property has been mined. The taxpayer is in the production phase and is selling product. The taxpayer estimates that there is 100,000 tons of ore to be extracted (line 2). For purposes of the computation for depletion, the basis of the mine is \$50,000. During the tax year, the taxpayer mines and sells 3,500 tons of ore (line 4). The first year depletion would be calculated as follows:

Line 1: Purchase price = \$ 50,000

Line 2: 100,000 estimated recoverable units (survey or other estimate method)

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Line 3: Rate of Depletion per ton ($\$ 50,000/100,000$) = $\$ 0.50$
Line 4: 3,500 units produced
Line 5: Depletion for year ($3,500 \times \$ 0.50$) = $\$ 1,750$
First year depletion $\$ 1,750$
Second year basis of the property $\$ 50,000 - \$ 1,750 = \$ 48,250$

If estimates of the amount of reserves were never adjusted, the above calculation for depletion would remain constant. The basis would be reduced each year by the amount of depletion until it is totally consumed and the taxpayer has no basis left in the property. At this time, cost depletion is no longer allowed. While this scenario would certainly not be out of the ordinary, a revision in the estimate of reserves will affect the depletion calculation.

In the second year, the estimated recoverable units changes to 137,000 tons. The taxpayer mines and sells 7,000 tons. The calculation for depletion for year two would be as follows:

Line 1: Second year basis of the property $\$ 50,000 - \$ 1,750 = \$ 48,250$
Line 2: Revised estimate of un-extracted units 137,000
Line 3: Rate of depletion ($\$ 48,250/137,000$) = $\$ 0.35$
Line 4: 7,000 units produced
Line 5: Depletion for year ($7,000 \times \$ 0.35$) = $\$ 2,450$
Second year depletion $\$ 2,450$
Second year basis of the property $\$ 48,250 - \$ 2,450 = \$ 45,800$

PERCENTAGE DEPLETION CALCULATION

Line 6. Total income from mining operation. Enter total from page 1, line 3 of the Mining License Tax Return - Short Form.

Line 7. Royalties Paid

- Enter total from Schedule B, line 3.

Line 8. Subtract line 7 from line 6.

Line 9. Applicable Depletion Percentage

Depletion percentages to be used

- 10% Coal Mines
- 15% Metal mines, fluorspar, flake graphite, vermiculite, beryl, feldspar, mica, talc, lepidolite, spodumene, barite, ball and sagger clay, or rock asphalt mines and potash mines or deposits
- 23% Sulphur mines or deposits

Line 10. Multiply line 8 by line 9.

Line 11. Enter amount from page 1, line 3 of the Mining License Tax Return - Short Form.

Line 12. Enter amount from page 1, line 11, of the Mining License Tax Return - Short Form.

Line 13. Subtract line 12 from line 11.

Line 14. Limitation

- Multiply line 13 by 50%.
- Percentage depletion is limited to 50% of net income from the property before the depletion deduction

Line 15. Compare the amounts on lines 10 and 14 and enter whichever is less.

Line 16. Compare the amounts on lines 5 and 15 and enter whichever is greater. Enter the amount also on page 1, line 13 of the Mining License Tax Return - Short Form. The depletion deduction is the greater of cost or percentage depletion calculated each year.

The following example covers Percentage Depletion.

Cost depletion calculated separately, not shown for this example, was determined to be $\$ 350,000$. The taxpayer purchases a claim for $\$ 1,000,000$ with known mineral reserves in mineable quantities. The taxpayer is in the production phase and is selling product. The taxpayer estimates the life of the gold mine to be 10 years. The total income each year is $\$ 10,000,000$ and the net income each year is $\$ 1,000,000$. There are no allowable royalty deductions. There were $\$ 9,000,000$ allowable expenses. The first year depletion would be calculated as follows:

Line 5: $\$ 350,000$
Line 6: $\$ 10,000,000$
Line 7: $\$ 0$
Line 8: Line 6 - line 7 or ($\$ 10,000,000 - 0$) = $\$ 10,000,000$
Line 9: Gold is a 15% rate
Line 10: ($\$ 10,000,000 \times 15\%$) = $\$ 1,500,000$
Line 11: $\$ 10,000,000$
Line 12: $\$ 9,000,000$
Line 13: $\$ 1,000,000$
Line 14: $\$ 500,000 = (\$ 1,000,000 \times 50\%)$
Line 15: Lesser of line 10 or 14 = $\$ 500,000$
Line 16: $\$ 500,000$